

**Commonwealth of Kentucky**  
**Kentucky Department of Revenue**

# **Modernized e-File (MeF) Guide for Software Developers and Transmitters**

## **Individual Income Tax**

***KY PUBLICATION 4164***



**Tax Year 2016  
Processing Year 2017**

**December 12, 2016  
Version 1.6**

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Date	Action
10/28/2016	Version 1.0 posted to web
11/3/2016	Version 1.1 posted to web – clarified 8879-K information regarding 740-X
11/4/2016	Version 1.2 posted to web – interest rate information revised
11/17/2016	Version 1.3 posted to web – Added requirement of attaching PDF of signed copy of Schedule FD and naming scheme for attachment. Added Angel Investor Credit recapture information. Added information for completing the Form 8879-K when the Form 740-NP-R is e-filed. Added the zip plus 4 to the mailing addresses.
11/30/2016	Version 1.4 posted to web – Add additional file name to be used for attachment for Schedule FD when claiming food donation tax credit.
12/9/2016	Version 1.5 posted to web - Specified ATS instruction Section 4.
12/12/2016	Version 1.6 posted to web - Added instructions for Form 740-NP-R – A copy of the federal return must be included with the 740-NP-R as it is with the 740 and 740-NP.

## Section 1: INTRODUCTION

The material in this publication will provide software developers and transmitters the necessary information for capturing and formatting Kentucky individual income tax data and the associated federal information required as part of a Kentucky return. The information included in these specifications does not provide all the various tax booklet instructions and tax law detail necessary in the preparation of the Kentucky return. Please refer to the 2016 Kentucky individual income tax booklet (Form 740 and Form 740-NP) and Kentucky Department of Revenue (KDOR) website at [www.revenue.ky.gov](http://www.revenue.ky.gov) for additional forms, schedules and instructions.

This publication does not represent the requirements and procedures issued by the Internal Revenue Service (IRS). All IRS requirements must be adhered to in developing the Kentucky return and participating in the fed/state e-file program. See IRS Publications 4164, Modernized e-file Guide for Software Developers and Transmitters and Publication 1345, Handbook for Electronic Return Originators of Individual Income Tax Returns.

The Kentucky Department of Revenue e-File program works in conjunction with the Internal Revenue Service 1040 e-File program to allow authorized Providers, or Electronic Return Originators (ERO's) to electronically file both federal and state individual income tax returns and corresponding forms, schedules and attachments.

For tax year 2016, Kentucky will accept Form 740, Form 740-NP, Form 740-NP-R and their supporting schedules/forms for electronic filing through fed/state MeF. The Form 725 has been added for tax year 2016. Form EPAY and Form 40A102 remain available for tax year 2016. Form 720-SL to request an extension of time to file the Form 725 has been added. The current year amended returns, Form 740-X and Form 740-NP with the amended indicator set, have been added to Kentucky e-file for tax year 2016.

The transmission method is a Web Service using Simple Object Access Protocol (SOAP) with attachments messaging. An e-File tax return uses schemas which are formatted using Extensible Markup Language (XML). This language defines the structure and content of an XML document to create all forms, schedules and attachments in electronic format for IMF. Business rules are created to specify requirements that cannot be defined in the XML.

Kentucky follows the standards defined by the NACTP (National Association of Computerized Tax Processors). If you are not a member of the NACTP, you are encouraged to review the standards on their website ([www.nactp.org](http://www.nactp.org)).

The Kentucky Department of Revenue (KDOR) would like to express our appreciation to the software developers that participated during the 2015 filing season and encourage any new software developers to consider Kentucky for the 2016 filing season. We always welcome your suggestions and comments. Feel free to contact the Department of Revenue at any time.

## **Section 2: OVERVIEW OF 2016TY / 2017PY CHANGES**

### **Filing Deadline will be April 18, 2017 for TY2016**

The filing deadline for Tax Year 2016 will be April 18, 2017.

### **Kentucky Department of Revenue Address Changes effective January 1, 2017**

- Individual Income Tax with payment  
(42A740, 42A740EZ, 42A740NP, 42A740X)  
Kentucky Department of Revenue  
PO Box 856980  
Louisville, KY 40285-6980
- Individual Income Tax without payment  
(42A740, 42A740EZ, 42A740NP, 42A740NPR, 42A740X)  
Kentucky Department of Revenue  
PO Box 856970  
Louisville, KY 40285-6970
- K-2's paper filing  
Kentucky Department of Revenue  
PO Box 856950  
Louisville, KY 40285-6950
- Corporate Income Tax with Payment  
(41A720, 41A720S, 41A725, 41A765)  
Kentucky Department of Revenue  
PO Box 856910  
Louisville, KY 40285-6910
- Corporate Income Tax without payment  
(41A720, 41A720S, 41A725, 41A765)  
Kentucky Department of Revenue  
PO Box 856905  
Louisville, KY 40285-6905

### **Form 740-NP-R, Kentucky Income Tax Return Nonresident-Reciprocal State**

The Form 740-NP-R, Kentucky Income Tax Return Nonresident-Reciprocal State will be accepted for electronic filing beginning in tax year 2016. The Kentucky wage and tax statement(s) must be provided with the return or it will be rejected.

A direct deposit of the refund amount is not an option for the Form 740-NP-R. A check will be issued and mailed for the refund amount.

**Please complete the 8879-K when the 740-NP-R is e-filed.**

Instructions for a Form 8879-K for an e-filed 740-NP-R should be as follows:

8879-K, Part I

Line 1 – Kentucky taxable income – Enter the value of the element KentuckyWages

Line 2 – blank

Line 3 – Enter the amount from Form 740-NP-R, lines 1 (element KYWithholdingPaid)

Line 4 – Enter the amount from Form 740-NP-R, line 11 (element Refund)

Part II – Not applicable for 740-NP-R

Part III –

Check box 11 – Not applicable

Check box 12 – Should always be checked.

Check box 13 – Not applicable

A copy of the federal return is required with the filing of the Form 740-NP-R.

### **Form 725, Kentucky Single Member LLC Individually Owned Income and LLET Return**

The Form 725, Kentucky Single Member LLC Individually Owned Income and LLET Return and supporting forms and schedules will be accepted for electronic filing beginning in tax year 2016.

### **Current Year Amended Returns**

Kentucky current year amended returns (Form 740X and Form 740-NP) and their supporting forms and schedules will be accepted for electronic filing beginning in tax year 2016.

Please wait for the receipt of the acknowledgement of the original return before submitting an amended return. The original return may be rejected and then you can correct the original and resubmit it eliminating the need to file an amended return. If the original return is accepted, then an amended return should be filed.

A copy of the original filed Kentucky return is not required with the e-filed amended return.

A PDF copy of the amended federal return (1040-X) is required if the taxpayer indicates (element Form1040XFiledIndicator) that the federal return has been amended. Use attachment file name 1040X.pdf or Form1040X.pdf to provide the copy of the amended federal return since the IRS does not currently support 1040-X through e-file.

The reference to the 740-X has been added to the Form 8879-K, Part I. Please use the column III, Correct Amount from the 740-X to populate the 8879-K, Part I. Combine the primary and secondary taxpayer amounts where necessary for the 740-X, line 3 amount listed on 740-X, Part I, line 1.

### **Standard Deduction**

The standard deduction increased from \$2,440 to \$2,460.

## Family Size Tax Credit

This credit provides benefit to individuals and families at incomes up to 133 percent of the threshold amount based on the federal poverty level. The 2016 threshold amount is \$11,880 for a family size of one, \$16,020 for a family of two, \$20,160 for a family size of three and \$24,300 for a family size of four or more.

Children of divorced or separated parents can be claimed for the FSTC based on where they resided the majority of the year, not necessarily the parent that claimed the child as a deduction.

### Determining the Size of Family Unit:

- 1 - An individual either single or married living apart from his or her spouse for the entire year
- 2 - An individual with one dependent child or a married couple
- 3 - An individual with two dependent children or a married couple with one dependent child
- 4 or more - An individual with three dependent children or a married couple with two dependent children

For purposes of computing the family size tax credit, the maximum family size is 4.

The following table lists the percentage used in calculating the FSTC based on family size and modified gross income for tax year 2016. The MGI amounts in the family size tax table changed for TY2016.

Family Size	One		Two		Three		Four or More		Credit Percentage Is
	Is over	Is not over	Is over	Is not over	Is over	Is not over	Is over	Is not over	
TY 2 0 1 6		11,880		16,020		20,160		24,300	100%
	11,880	12,355	16,020	16,661	20,160	20,966	24,300	25,272	90%
	12,355	12,830	16,661	17,302	20,966	21,773	25,272	26,244	80%
	12,830	13,306	17,302	17,942	21,773	22,579	26,244	27,216	70%
	13,306	13,781	17,942	18,583	22,579	23,386	27,216	28,188	60%
	13,781	14,256	18,583	19,224	23,386	24,192	28,188	29,160	50%
	14,256	14,731	19,224	19,865	24,192	24,998	29,160	30,132	40%
	14,731	15,088	19,865	20,345	24,998	25,603	30,132	30,861	30%
	15,088	15,444	20,345	20,826	25,603	26,208	30,861	31,590	20%
	15,444	15,800	20,826	21,307	26,208	26,813	31,590	32,319	10%
	15,800	-	21,307	-	26,813	-	32,319	-	0%

## Military Spouse Indicator

The Military Spouses Residency Relief Act prohibits a spouse's income from being considered income earned in a tax jurisdiction if the spouse is not a resident or domiciliary of such jurisdiction when the spouse is in that jurisdiction solely to be with a service member serving under military orders. Those military spouses who fall under this law should file Form 740-NP to request a refund of the Kentucky income tax withheld from his or her pay. The income would not be reported as taxable on the Kentucky income tax return.

To assist the department in identifying those returns, please check the Military Spouse box at the top left of the Form 740-NP return.

### **Distilled Spirits Recapture Indicator**

A checkbox was added on the Form 740, line 13 to indicate that a Schedule DS-R is being filed. This box should be checked if a recapture of the distilled spirits credit is being claimed; otherwise, leave unchecked. Please refer to the [Kentucky Tax Alert, November 2015, Vol.34, No. 6](#) for additional information.

### **Driver's License/State Issued Identification Number**

The Department of Revenue is requesting that taxpayers include a driver's license or state issued identification number on their tax return. This additional information will assist the Department of Revenue's efforts to protect the taxpayer and their identity. Kentucky has implemented many internal measures along with collaborating with outside sources to prevent tax fraud and identity theft. Safeguarding tax information is very important to the Department of Revenue.

### **Individual Income Tax Refund Contributions**

Effective for taxable years beginning on or after January 1, 2016, new contribution fund options have been added to the Form 740, Form 740-EZ, Form 740-NP and Form 740-NP-R, which allow a designation of all or portion of an individual's overpayment to be contributed to the taxpayer's fund(s) of choice.

The new contribution fund options are as follows:

- **SPECIAL OLYMPICS KENTUCKY**—KRS 141.443 allows an individual's refund to be contributed to Special Olympics Kentucky. Designated funds support health, education and athletic programs serving children and adults with intellectual disabilities in the Special Olympics Kentucky program.

Schema element name: SpecialOlympicsKyFund

- **PEDIATRIC CANCER RESEARCH TRUST FUND**—KRS 141.445 allows an individual's refund to be contributed to the Pediatric Cancer Research Trust Fund. Designated funds support pediatric cancer research and treatment for Kentucky patients.

Schema element name: PedCancerResearchTrustFund

- **RAPE CRISIS CENTER TRUST FUND**—KRS 141.447 allows an individual's refund to be contributed to the Rape Crisis Center Trust Fund. Designated funds support centers which serve victims of rape and their families by providing counseling and other support.

Schema element name: RapeCrisisCtrTrustFund



Refer to [Kentucky Tax Alert, May 2015, Vol. 34, No. 3](#) for additional information.

### **Kentucky Energy Efficiency Products Tax Credit (Form 5695-K)**

This nonrefundable credit was established by HB 2 in the 2008 General Assembly for tax periods beginning after Dec. 31, 2008, and before Jan. 1, 2016. The nonrefundable credit may be applied against tax imposed under KRS 141.020 or 141.040 and KRS 141.0401. Any unused credit may be carried forward one year. Thus, for tax year 2016 this credit has expired and the only allowable Kentucky Energy Efficiency Products Tax Credit will be any **unused credit carryforward from 2015** income tax returns.

### **Schedule FD – Food Donation Tax Credit – Form 41A720FD**

A Schedule FD will be required to support the nonrefundable food donation tax credit claimed on Form 740 or Form 740-NP, Section A, line 22 for electronically and mailed in returns for tax year 2016.

For electronically filed returns, the SchFD.xsd, which includes Parts I and II of the schedule, should be provided when claiming the food donation tax credit. In addition to the SchFD.xsd, a scanned copy of the signed Schedule FD included as a PDF attachment is also required. The file name **FoodDonationTaxCredit.pdf** or **KYSCHFD.pdf** must be used or the submission will be rejected.

For mailed in returns, a copy of the signed Schedule FD is required.

A common error in tax year 2015 was due to taxpayers claiming this credit erroneously. If the following qualification is not met, the credit is not allowed.

Taxpayers that qualify for this credit **must be responsible for and derive income from:** (i) growing fruits, vegetables, or other edible agriculture products; or (ii) raising beef, poultry, pork, fish, or other edible agriculture products. Edible agriculture products means fruits, vegetables, beef, poultry, pork, fish, or any other edible product raised or grown in Kentucky that is intended for and fit for human consumption.

The schema allows for ten occurrences of the Schedule FD. The return would need to be mailed instead of e-filed for instances where there are more than ten occurrences.

### **Income and Withholding Tax Statements**

All Kentucky withholding claimed on the tax return **must** be supported by an income and withholding tax statement. Form 1099-K will be supported in the schema for the upcoming tax year.

### **Debit Card Option for Tax Refunds**

Taxpayers may choose to have their overpayment refunded on a state issued debit card. The card is issued through Bank of America. Please refer to Section 10 for additional information and restrictions.

## **Schedule A Changes**

### ***Schedule A (740) – Itemized Deductions Limitation***

For tax year 2016, the limitation on itemized deductions threshold changed from \$184,000 (\$92,000 if married filing separately on a combined return or filing separate returns) to \$184,850 (\$92,425 if married filing separately on a combined return or filing separate returns). If your Kentucky adjusted gross income is above this threshold then your itemized deductions (excluding medical and dental, investment interest, losses for casualty or theft and gambling losses) will be limited. In general, if the limitation applies, itemized deductions are reduced by the lesser of 3% of the adjusted gross income that exceeds the threshold or 80% of the allowable itemized deductions.

If the taxpayer is itemizing deductions, Part II of Schedule A must be completed if the filing status is Single or married filing jointly and the KY AGI is greater than \$184,850 or the filing status is married filing separately on a combined return or married filing separate returns and the Kentucky AGI is greater than \$92,425.

The only time Schedule A, Part I is completed is if the filing status is married filing separately on a combined return and the KY AGI is less than \$184,850.

### ***Schedule A (740-NP) – Itemized Deductions Limitation***

For tax year 2016, the limitation on itemized deductions threshold changed from \$184,000 (\$92,000 if married filing separately on a combined return or filing separate returns) to \$184,850 (\$92,425 if married filing separately on a combined return or filing separate returns). If your Kentucky adjusted gross income is above this threshold then your itemized deductions (excluding medical and dental, investment interest, losses for casualty or theft and gambling losses) will be limited. In general, if the limitation applies, itemized deductions are reduced by the lesser of 3% of the adjusted gross income that exceeds the threshold or 80% of the allowable itemized deductions.

## **Form 8863-K – Education Tuition Tax Credit**

Any unused credit carryforward remaining from the 2011 tax return is no longer eligible for a carryforward on Form 8863K.

### ***Common error found on last years returns resulting in an adjustment to the Education Tuition Tax Credit:***

A taxpayer files their return in a given year and answers the questions to claim the nonrefundable Education Tuition Tax Credit, but for any number of reasons their tax liability that year is \$0 so they will not be able to claim the credit and will have to carry it forward to a future year. Some software does not submit the 8863-K in these instances since the taxpayer is not actually receiving the credit yet. Then, in future years, the taxpayer files a return with an 8863-K to claim the credit carryforward and the Department of Revenue is not able to verify carryforward because the 8863-K was never filed in the prior year to establish the credit.

In order to eliminate this problem, which places a hardship on the Department of Revenue, the taxpayers, and tax preparers, it would be extremely helpful if the 8863-K

was filed in any year that it is necessary to establish the credit for carryforward purposes, not just the years where they are actually receiving the credit.

### **Electronic Payment of Estimate Tax Payments Payment Dates**

Taxpayers may schedule up to four equal payments via a direct debit of their financial institution account. The scheduled payment dates for the 2017 estimate tax payment period are: April 18, 2017, June 15, 2017, September 15, 2017, and January 16, 2018. The Form 8879-K and Form EPAY include authorization of the direct debit of estimate tax payments.

### **Angel Investor Tax Credit**

Effective for taxable years beginning on or after January 1, 2015, KRS 141.396 makes available a nonrefundable personal income tax credit under the Kentucky angel investment credit program to individuals who invest a minimum of \$10,000 in certain Kentucky small businesses with high-growth potential that are engaged in knowledge-based activities, such as bioscience, environmental and energy technology, health and human development, information technology and communications, and materials science and advanced manufacturing, that will further the establishment or expansion of small businesses, create additional jobs, and foster the development of new products and technologies.

A checkbox was added on the Form 740, line 13 to indicate that an Angel Investor credit recapture is being claimed. A check box was not added to the 740-NP, line 14 but the amount of Angel Investor credit recapture should be included in the line 14 amount.

### **Kentucky Payment Voucher for Payments by Check/Money Order**

For balance due returns filed electronically where taxpayer elects to pay by check or money order, taxpayers should mail the Form 740-V with the check or money order to the Kentucky Department of Revenue, Frankfort, KY 40620-0011. A copy of the electronically filed return should **not** be included with the payment. Do not staple the check/money order to the Form 740-V.

### **1040-NR – U.S. Nonresident Alien Income Tax Return**

The IRS will allow the 1040-NR to be electronically filed in tax year 2016. Kentucky will accept the 1040-NR schema with the Kentucky return. As with the 1040, the federal adjusted gross income from the 1040-NR, line 36 will be validated on the Kentucky Form 740, line 5 and Form 740-NP, line 8.

### **Interest Rate for PY2017**

The interest rate for 2017 charged by the Kentucky Department of Revenue on unpaid taxes shall be five percent (5%) and when interest is due on a refund, the rate shall be one percent (1%).

### **Section 3: SOFTWARE DEVELOPER'S RESPONSIBILITIES**

Kentucky will accept returns electronically from any IRS approved software provider upon completion of testing with the Kentucky Department of Revenue.

Each year vendors are required to update the following information before they begin testing with the Kentucky Department of Revenue.

- SoftwareID
- NACTP ID
- Software Company Name / Market Name
- Software Company Mailing address
- Company web address
- Type of product supported under the SoftwareID
- Submission Types
- Primary contact name
- Primary e-mail addresses
- Primary telephone numbers

A Kentucky Letter of Intent document has been created to gather the requested information from the software development company. A separate form should be completed for each product. The TY2016 Letter of Intent and IMF schema is available through the State Exchange System (SES). Refer to Section 4 for additional information.

A contact name and e-mail address must be provided for test result notification. The company information is needed for the approval list posted to the web. The type of software information is used by our system for statistical purposes to determine the number of professionally prepared returns filed and the number of nonprofessional online returns filed per year. Fraud Protection & Prevention methods information is being requested on the Letter of Intent.

Developed software must meet the following requirements:

1. Adhere to all federal and state procedures, requirements and specifications. These requirements are specified in IRS Publication 4164, *Modernized e-File Guide for Software Developers and Transmitters*.
2. Successfully complete all testing.
3. Be developed in accordance with statutory requirements and Kentucky Department of Revenue return preparation instructions.
4. Provide accurate Kentucky tax returns in correct electronic format.
5. Provide data validation, verification, and error detection to prevent transmission of incomplete, inaccurate, or invalid return information.

6. Software provider must be available to correct any software errors, which may occur after production begins, and work with the Kentucky Department of Revenue to follow up on any processing issues that may arise during filing season. If software providers need to re-release corrected software, it should be done in a timely manner and proper notification should be made to all customers.
7. Assist the Kentucky Department of Revenue in the detection and disclosure of suspicious activity related to the preparation and filing of individual income tax returns and financial products related to refunds and tax due.

## Section 4: SOFTWARE ACCEPTANCE, TESTING & APPROVAL

1. Software developers that meet the current testing requirements set forth by the IRS are invited to test for Kentucky Department of Revenue acceptance. In order to participate in the Federal/State Electronic Filing Program, participants must apply to the IRS Electronic Filing Program. Federal Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns, specifies the application process and requirements for federal participation. The IRS definition of the various categories of electronic filers (electronic return originator, transmitter or software developer) will apply for Kentucky electronic filing purposes under the federal/state program.
2. A completed 2016 Kentucky Tax Software Provider Letter of Intent (LOI) is required. The LOI is maintained on the FTA State Exchange System (SES). The names of the authorized SES tax industry users will be provided to the states by the National Association of Computerized Tax Processors (NACTP). Access to the SES is limited to 2 authorized users from each tax software company. Contact the NACTP with requests to be added to the industry list. Requests for access to the Kentucky folder in SES should be sent to [AudreyJ.Terry@ky.gov](mailto:AudreyJ.Terry@ky.gov). Once the request from the industry partner is received, KDOR will check the authorized user list and make the determination to grant access to the Kentucky folders in SES. A separate LOI should be completed for each product. Please send the completed LOI to [AudreyJ.Terry@ky.gov](mailto:AudreyJ.Terry@ky.gov). The LOI should be submitted prior to beginning your testing.
3. All transmissions must contain the 'SoftwareID'. Contact [AudreyJ.Terry@ky.gov](mailto:AudreyJ.Terry@ky.gov) if you do not currently have a Kentucky Software ID. This identification must be verified before the first test file is transmitted. The SoftwareID must be all upper case within the XML or it will cause the submission to reject.
4. The Kentucky Department of Revenue will accept test returns for tax year 2016 based on the schedule found in Section 11 of this document. The Kentucky MeF testing system is subject to IRS availability and dates are subject to change. Please e-mail [AudreyJ.Terry@ky.gov](mailto:AudreyJ.Terry@ky.gov) when sending test returns and include your Software ID, the Submission id's associated with the test returns being submitted and any software limitations. A PDF copy of the test package must be sent with the notification when testing.
5. Beginning in tax year 2016, Kentucky will accept criteria based tests instead of scenario based tests.
  - Test all major forms and as many supporting forms as possible. Include the new fields supported by the software. (See Section 2 for information on the new fields.)
  - Tests should include an example of different filing statuses supported. Specifically, if Married, filing separate on a combined (MFC) return is

supported, a test with this filing status should be submitted so that the 2 column return can be tested.

- Tests for the Form 740-NP should include both residency statuses (full year and part-year resident).
- Tests should include the different methods of financial products supported (direct deposit, state payment for tax due, direct debit of estimate tax, state issued debit card).
- You are not limited to the number of tests you create for review but we suggest no more than 15 tests.
- Provide a PDF copy of the state return for each tests including page 1 of the federal return.

6. Software developers are encouraged to support all schedules, forms and occurrences. It is important that customers are provided with the complete range of services. Please submit linked and unlinked returns within your test package. If you participate as a Free File provider supporting Kentucky returns, please submit at least one test as a free filed return with the Special Program element marked appropriately (<SpecialProgram>Freefile</SpecialProgram>).
7. Please inform the Kentucky Department of Revenue in the LOI before the first transmission of the software limitations so we can take the limitations into consideration when reviewing your test submission.
8. Business Rules – Kentucky created a list of business rules and issued a reject code for any business rule that will cause a submission to be rejected. The business rules include the element name in an effort to benefit the software developer and tester. The reject code text was created without the element name and reworded in an effort to make the rejection code more understandable for the taxpayer and/or tax preparer receiving the reject code.

A separate set of business rules and reject codes was created for the Form 740 Series, Form 740-NP Series, Form 740-X, amended 740-NP, Form 740-NP-R, Form 40A102, Form 725, and Form 720-SL. The rules for the forms and schedules that are shared by return types are the same but may have different rejection codes depending on the form series.

Most of the business rules should be verified in Kentucky's test system before your software is approved. A business rule failure could result in the return being adjusted by our backend processes.

Business Rules and Reject codes can be found on the MeF web page (<http://revenue.ky.gov/Software-Developer/Pages/Modernized-Electronic-Filing.aspx>).

9. Acknowledgements will be provided for all test returns. The return will be either accepted or rejected. An 'Accepted' acknowledgement does not mean your

software is approved for release, it merely means that the system acknowledges having accepted the return for processing. Approval is not granted until an email is received from the department stating such.

10. The Kentucky Department of Revenue will provide test results via an email in a timely manner, usually within two working days of receipt of the submission. A software provider who successfully completes testing will receive an approval letter via an e-mail. The e-mail will be sent to the software developer contacts provided.
11. The Kentucky Department of Revenue will assist the software community in the detection and disclosure of suspicious activity related to the preparation and filing of individual income tax returns and financial products related to refunds and tax due.
12. An acceptance letter will be issued after your software is accepted. The letter must be provided to all software users with the final version of your software.



## Section 5: ACKNOWLEDGEMENT SYSTEM

The Kentucky Department of Revenue will send acknowledgments through the IRS. The acknowledgement record will be in a format approved and agreed upon by the IRS, state agencies, transmitters and software developers.

Kentucky will generate an acknowledgement of receipt of the return immediately upon retrieval of the submission. This does not mean the submission has been accepted for processing. It only means we are in receipt of the submission.

An acknowledgement of acceptance or rejection for each state submission will be generated after the submission goes through the schema validations and business rules engine. The transmitter may retrieve Kentucky's acknowledgements from the IRS.

Acknowledgement of acceptance means the submission has been accepted for processing. Acceptance does not mean the submission is free of errors.

Acknowledgement of rejection means the submission failed to process. A reject code and description will be returned with the acknowledgement record giving the reason for the rejection.

### Acknowledgement Reconciliation Process

Transmitters and software developers should allow **two working days** from the date the submission status is placed in "Made Available" before contacting us to determine why an acknowledgement has not been received.

To check on the status of a Kentucky submission, contact the Electronic Filing Helpdesk by phone or e-mail. Please be prepared to provide the following information in order to track the status of the submission:

- Transmission Date
- Submission ID

From time to time and especially during peak, the Gateway between the IRS and Kentucky may timeout and submissions are not successfully retrieved but marked as such. We try to run reconciliation at least once a week or more to prevent missing acknowledgements. If you encounter numerous missing acknowledgements (hundreds/thousands), please send the submission ids in an Excel spreadsheet via e-mail to [AudreyJ.Terry@ky.gov](mailto:AudreyJ.Terry@ky.gov). We will investigate and manually download if necessary.

## **Section 6: GENERAL INFORMATION**

### **Submission Types**

Kentucky's MeF program accepts two types of submissions.

- **Linked Submissions**

A linked submission is when an original federal return is submitted with one original state return in one transmission to the IRS. The IRS validates and verifies the federal return data. The IRS will either accept or reject the federal return. The state return is made available to Kentucky only if the federal return is accepted by the IRS.

If a federal return is rejected in a Linked submission, the state return is not made available to Kentucky. In this case, the re-transmission should include both the state return and a copy of the federal return.

- **Unlinked Submissions**

An unlinked submission is when the state return is transmitted through the Fed/State system without simultaneously transmitting an original federal return. The software must support unlinked submissions in order for the state only transmissions to be available to the electronic filer. Unlinked returns are transmitted to the IRS and made available for states to retrieve in the same fashion as the Linked transmission. A copy of the federal return is to be included with the state return in an unlinked submission.

### **Federal Forms & Schedules Required**

Kentucky requires a complete copy of the XML federal return and income and withholding tax statements to be sent along with the Kentucky XML return whether sent as a "linked" or "unlinked" submission.

### **Signature Process**

- PIN Signature process used for the federal return is accepted for the Kentucky signature requirement.
- Form 8879-K is the required signature / attachments document.
- No signature document should be mailed to Kentucky unless requested.

### **E-file Mandate**

Kentucky requires tax return preparers to electronically file Kentucky returns if they are required to electronically file a return for federal income tax purposes. Beginning January 1, 2011, Kentucky phased-in the mandate over a two-year period. The first year paid tax preparers who filed 100 or more returns were required to file electronically. The succeeding years the threshold was dropped to 11 or more returns.

Any paid preparer who fails or refuses to comply with the mandate shall pay a return processing fee of \$10 for each return not filed as required, unless it is shown to the department that the failure is due to reasonable cause. Reasonable cause may be the lack of one or more of the

following: compatible computer hardware, internet access or other technological capabilities determined relevant by the department.

Kentucky requires a preparer to provide a Form 8948-K, Preparer Explanation for Not Filing Electronically, with any paper return filed as an exception. The form allows the tax preparer to explain the reason for not filing electronically, which includes that the taxpayer chose not to have the return filed electronically.

If you feel you have a valid reason to be exempted from this mandate, please provide a letter of explanation and a request for waiver to [AudreyJ.Terry@ky.gov](mailto:AudreyJ.Terry@ky.gov).

### **Exclusions from Electronic Filing for TY2016**

- Prior Year Returns
- Fiscal year filers for individual income tax
- Injured Spouse Declaration
- Fiduciary Returns

PDF versions of the income and withholding tax statement will exclude the Form 740-NP-R from e-file.

\*\*\*In addition to the above exclusions from Kentucky electronic filing, any income tax return reflected in the list of exclusions from federal electronic filing cannot be filed through the Federal/State Electronic Filing Program.\*\*\*

Form 8948-K was created to explain the reason for not following the paid preparer mandate. A Form 8948-K should be attached to any paper return filed by a paid tax preparer that falls under the mandate.

### **e-File Documents**

The following forms, schedules, and worksheets are included in the individual income tax schema.

- Form 740 – Kentucky Individual Income Tax Return Full-Year Residents Only
- Form 740-NP – Kentucky Individual Income Tax Return Nonresident or Part-Year Resident
- Form 740-NP-R, Kentucky Individual Income Tax Return – Nonresident – Reciprocal
- Amended 740-NP, Kentucky Individual Income Tax Return – Nonresident and Part-Year Resident Return
- Form 740-X – Amended Kentucky Individual Income Tax Return
- Schedule A – (Form 740) - Kentucky Itemized Deductions
- Schedule A (Form 740-NP) – Itemized Deductions
- Schedule J – Kentucky Farm Income Averaging
- Schedule KNOL – Kentucky Net Operating Loss Schedule

- Schedule M – Kentucky Federal Adjusted Gross Income Modifications
- Schedule ME – Moving Expense and Reimbursement
- Schedule P – Kentucky Pension Income Exclusion
- Form 2210K – Underpayment of Estimated Tax by Individuals
- Form 4562K – Depreciation and Amortization
- Form 4972K – Kentucky Tax on Lump-Sum Distributions
- Form 5695K – Kentucky Energy Efficiency Products Tax Credit
- Form 8582K – Kentucky Passive Activity Loss Limitations
- Form 8863K – Kentucky Education Tuition Tax Credit
- Worksheet A – Credit for Taxes Paid to Other State
- Worksheet C – Kentucky Limited Liability Entity Tax Credit
- Form 40A102 – Application for Extension of Time to File Individual, General Partnership, and Fiduciary Income Tax Returns for Kentucky  
(The electronic filing of the 40A102 is accepted through IMF for the Form 740 and Form 740-NP. The electronic filing of the 40A102 for the Form 765-GP is accepted through BMF. Kentucky does not support electronic filing of the 40A102 for the Fiduciary Income Tax return at this time.)
- Form 42A740-EPAY—Kentucky Electronic Payment Request Form
- Form 725-Kentucky Member LLC Individually Owned LLET Return
- Form 720-SL-Application for Extension of Time to File the Form 725

The following income and withholding tax statements are available as schemas:

- W-2
- W-2G
- 1099-B
- 1099-R
- 1099-G
- 1099-INT
- 1099-K
- 1099-MISC
- 1099-OID
- 1099-DIV
- Form PTE

Note: All Kentucky withholding claimed must be supported by an income and withholding tax statement. We will accept PDF documents limited to those documents that contain Kentucky withholding tax, but we strongly suggest that the data be provided in XML format if a schema is available. If the withholding amount claimed is not supported, the submission may be rejected or the unsupported amount disallowed.

Note: PDF versions of the income and withholding tax statement are not acceptable for Form 740-NP-R.

### **Required Data Elements**

The following information is required in MeF.

- The 'LinkedReturn' data element is required on all returns (True for linked; False for unlinked)
- InternetProtocol/IPAddress – required for all online returns;
- InternetProtocol/IPTimestamp, required for all online returns;
- Filer/Primary/DateofBirth, required for ALL returns;
- Filer/Secondary/DateofBirth, required on all returns using the married filing separate on a combined return or married filing joint return filing statuses;
- The 'SoftwareID' data element is required in the schema
- A complete copy of the XML federal return is required for all Kentucky returns, including unlinked returns;
- There are certain elements in the Form 740 and 740-NP schema that are listed as optional, however they should **ALWAYS** be completed and transmitted.
  - The PoliticalPartyFund / Taxpayer element is required on all returns.
  - The PersonalTaxCredits / RegularCredit / Taxpayer element should be checked on all returns.
- Form 740 - If the filing status selected on the return is filing status 2, (SeparateOnJointReturn), PrimaryTaxPayerAmount & SecondaryTaxPayerAmount fields are expected to be completed. If the spouse has no income, filing status 3, (JointReturn), should be selected.
- The Percentage of Kentucky Adjusted Gross Income to Federal Adjusted Gross Income (element PctKYToFedAGI) on Form 740-NP is required.
- The Pension Income Exclusion (element KySchdPExclusion) is an assumed negative. The amount should be listed as a positive number and subtracted from the Total Income (element KyTotalIncome) amount.
- If the taxpayer has filed a Form 40A102 with the state or has filed a federal extension (Form 4868), please mark the federal/state extension field (FederalExtension Indicator) in the Form 740/740-NP schema and the late filing penalty will not be assessed during processing.
- Form 40A102 - Use this form if you (1) are requesting a Kentucky extension of time to file; (2) are requesting a Kentucky extension and desire to make a payment prior to the due date; or (3) have a federal extension and desire only to make a Kentucky payment prior to the due date.
- A valid Kentucky withholding account number (EmployerStateldNumber) is required if Kentucky withholding is claimed on Form 740 or Form 740-NP, line 30(a). The maximum size of the account number is six digits. It must be numeric. The FEIN should not be entered in the Kentucky withholding account number field.
- For electronic submissions; if there are no differences between Federal Form 4562 and Kentucky Form 4562-K, a separate Kentucky Form 4562-K is not necessary. However, Federal Form 4562 should be attached to the copy of the federal return provided with the Kentucky submission.

### **Decimal places for ratios and percentages**

- Ratio types will use a single position in front of the decimal and up to 4 decimal places depending on the element. These element types exist on Form 4972K and Form 8863K.
- Percentage types will use 3 positions in front of the decimal and up to 2 decimal places depending on the element. These element types exist on Schedule A (Form 740 & Form 740-NP), Schedule P, and Worksheet C.

### **Numeric Fields**

Amount fields should be sent as whole dollar amounts. Kentucky numeric fields accommodate up to 15 total digits.

### **Processing of Business Incentive and Other Tax Credits**

Many of the tax credits that can be claimed on individual income tax returns require a taxpayer to receive approval before the credit can be claimed. If approval is required, it should be completed/received prior to claiming the credit on the income tax return. To determine if a tax credit requires pre-approval, please refer to the instructions for the applicable tax return. Return processing will be delayed for credit verification of the following business incentive tax credits if they are listed in Section A of Form 740 or Form 740-NP.

- Kentucky small business investment credit
- skills training investment credit
- nonrefundable certified rehabilitation credit
- unemployment credit
- recycling and/or composting equipment credit
- Kentucky investment fund credit
- coal incentive credit
- qualified research facility credit
- GED incentive credit
- voluntary environmental remediation credit
- biodiesel and renewable diesel credit
- environmental stewardship credit
- clean coal incentive credit
- ethanol credit
- cellulosic ethanol credit
- railroad maintenance improvement
- Endow Kentucky credit
- New Markets Development Program credit
- Food donation credit
- distilled spirits credit
- angel investor credit

Worksheet C is required if the nonrefundable limited liability entity credit is claimed on Form 740 or Form 740-NP, page 2, Section A, line 1.

Worksheet A is required if credit for taxes paid to other states is claimed on Form 740 or Form 740-NP, page 2, Section A, line 5. A copy of the other state's return should **not** be attached to the electronic submission. Please refer to the Form 740 and Form 740-NP instructions for additional information regarding the tax paid to other states credit.

### **Attachments**

Kentucky will accept PDF documents as binary attachments, limited to those documents that contain KY withholding that are not included in our schema or where your software does not support the schemas with the exception of the Form 740-NP-R. An xml of the wage and tax statement supporting the Kentucky withholding must be included with the 740-NP- R submission or the submission will be rejected. A processing delay will occur for those submissions that have attachments with Kentucky withholding so that the attachment can be manually reviewed.

A copy of the other state return is not required for the e-filed 740-NP-R return for tax year 2016.

### **Rejected Returns**

Sample:

<b>ErrorCategory</b>	<b>ErrorMessage</b>
XML Validation	<Actual XML Error Message>
Duplicate Return	Original Return already received for this tax year by SSN.

Business Rules and Reject codes can be found on the MeF web page (<http://revenue.ky.gov/Software-Developer/Pages/Modernized-Electronic-Filing.aspx>).

### **Perfection Period**

Kentucky allows a 10 calendar day perfection period on rejected individual income tax returns. The perfection period is not an extension of time to file; it is a period of time to correct errors in the electronic file. A rejected submission can be corrected within 10 calendar days and be given the received date of the original rejected submission.

Always enter the original submission date when resubmitting a submission that was previously rejected. The perfection period does not apply to the payment. Please note the last date to retransmit a rejected return in Section 11 – Important Dates.

### **Direct Deposit and State Payment (Direct Debit/ACH Debit)**

- Direct deposit and direct debit payment requests are accepted on Form 740 returns.
- Direct deposit requests will not be accepted for Form 740-NP or 740-NP-R returns.
- Form EPAY allows a taxpayer to schedule a direct debit payment of tax, penalty/interest and estimate tax at a time other than when filing the individual income tax return.
- Kentucky does not allow the refund to be deposited into multiple bank accounts or into a 529 Tuition Trust Account.
- The Account number must be numeric. No spaces or dashes are permitted.

- The financial transaction record has been altered to allow only one direct deposit account and one state payment account.
- The PaymentAmount in the state payment, if submitted with the return data, must equal the total amount due. No partial payments are accepted when filing the return.
- Form EPAY – The total amount of tax (TotPaymentDebitAmt) must be the sum of the additional tax due (AddTaxDueDebitAmt) and penalty/interest (PenaltyAndIntDueDebitAmt).
- Form EPAY - The PaymentAmount in the state payment must equal the TotPaymentDebitAmt.
- The payment amount (element PaymentAmount) on all financial transactions must be a **whole dollar amount**.
- The payment of tax due on any Form 740 or Form 740-NP return filed prior to April 18<sup>th</sup> can be warehoused until April 18<sup>th</sup>. The processing of a debit payment can take up to 7 days. Payments warehoused until April 18<sup>th</sup> may not be withdrawn from the taxpayer's account on the 18<sup>th</sup> but are treated as timely payments when they are withdrawn. Please advise your client's of this situation. **Warehousing is not allowed on amended returns.** The debit will be submitted to the financial institution when the submission is processed.
- After April 18<sup>th</sup>, there will be no warehousing of payments of additional tax due. The bank account will be debited when the return has completed processing.
- At this time, Kentucky is not able to process International ACH Transactions. The checkbox for "NotIATIndicator" should be checked on all Financial Transactions.

KDOR's acknowledgment of the electronic return will not indicate whether the refund will be direct deposited.

Some items which could cause KDOR to deny a direct deposit request:

- Direct deposit is not an option for the Form 740-NP, Form 740-NP-R or amended filer.
- KDOR reserves the right to deny direct deposit requests at our discretion.
- An invalid account number or bank routing number was provided.
- The amount of the refund is adjusted by the tax processing system.
- All or part of the overpayment is applied to the taxpayer's delinquent Kentucky taxes or the taxpayer's debts to other state agencies and/or the IRS.
- A Kentucky individual income tax return was not filed for the previous tax year.

The taxpayer may determine the reason for the conversion by calling the Department of Revenue's Taxpayer Assistance Section at (502) 564-4581 between 8:00 a.m. and 5:00 p.m., Monday through Friday, Eastern Standard Time.

#### **Multiple requests for direct deposit to the same account**

Please be advised that Kentucky adopted the same policy of issuing a check when multiple direct deposit requests to the same financial account are processed. The allowable number of direct deposit requests to the same account for tax year 2016 is



three. The fourth and subsequent refunds will convert to a check and be mailed to the taxpayer's mailing address.

Taxpayers will receive a notice informing them that the account has exceeded the direct deposit limits and that they will receive a paper refund check in approximately four weeks if there are no other issues with the return. Taxpayers can track their refunds at Where's My Refund?

The vast majority of taxpayers will not be affected by this limitation, and we would encourage taxpayers and tax preparers to continue to use direct deposit. It is the fastest, safest way for taxpayers to receive refunds.

The direct deposit limit will prevent criminals from easily obtaining multiple refunds. The limit applies to financial accounts, such as bank savings or checking accounts, and to prepaid, reloadable cards or debit cards.

However, the limitation may affect some taxpayers, such as families in which the parent's and children's refunds are deposited into a family-held bank account. Taxpayers in this situation should make other deposit arrangements or expect to receive paper refund checks.

The new limitation also will protect taxpayers from preparers who obtain payment for their tax preparation services by depositing part or all of their clients' refunds into the preparers' own bank accounts. The new direct deposit limits will help eliminate this type of abuse.

A direct deposit must be made to an account bearing the taxpayer's name. Preparer fees cannot be recovered by using Form 8888 to split the refund or by preparers opening a joint bank account with taxpayers. These actions by preparers are subject to penalty under the Internal Revenue Code and to discipline under Treasury Circular 230 (also, see Circular 230 Tax Professionals page).

### **Electronic Estimate Tax Payments (ACH Debit)**

- Electronic estimate tax payments can be direct debited from financial accounts through MeF. This can be initiated at the time of filing the Form 740, Form 740-NP or amended return. Electronic estimate tax payments can also be made with the electronic filing of the Form EPAY.
- Taxpayers may schedule up to four **equal** payments with the following debit dates: April 18, 2017, June 15, 2017, September 15, 2017, and January 16, 2018. (Only these dates are valid debit request dates.)
- Direct debit of estimate tax may be scheduled in addition to a direct debit of the tax amount due or direct deposit of refund, but the financial institution information (routing number, account number and type of account) must be the same for all the requested transactions.
- Direct debit of estimate tax may be scheduled in the absence of a direct deposit of refund or direct debit of tax amount due transaction.

- At this time, Kentucky is not able to process International ACH Transactions. The checkbox for “NotIAIndicator” should be checked on all Financial Transactions.
- To revoke (cancel) a payment, the taxpayer must contact the Kentucky Department of Revenue at (502) 564-4581 no later than 2 business days prior to the payment (debit) date.

### **Debit card option for tax refunds**

Refunds may be deposited to a debit card serviced by Bank of America beginning TY2015. Option boxes have been included to allow the taxpayer to request that the refund amount be loaded to a debit card and also an option was added to allow the taxpayer to request to receive the debit card materials in Spanish. The options boxes were added to the Refund line on the Form 740 (line 36), Form 740-EZ (line15) and Form 740-NP (line 36). The Department of Revenue reserves the right to decline the request and provide the refund by check.

The debit card is not an option for amended returns.

### **Application for Extension of Time to File Individual Income Tax Returns – Form 40A102 with a payment of tax direct debit request**

Kentucky accepts the Form 40A102 for Individual Income Tax Returns (Form 740 & Form 740-NP). For purposes of electronic filing, the Form 40A102 is appropriate only for the current tax year and the application will be accepted through the original due date. For tax year 2015, the original due date is April 18, 2016. The extension period is six months. Therefore, the extended due date will be through October 15, 2016.

Interest applies to any income tax paid after the original due date of the return. If the amount of tax paid by the original due date is less than 75% of the tax due, a late payment penalty may be assessed (minimum penalty is \$10). Interest and late payment penalty charges can be avoided by remitting payment with the Kentucky extension.

Taxpayers may make a direct debit request of tax due at the time the Kentucky extension is electronically submitted through MeF. The tax due debit amount (TotDueDebitAmt) on the Form 40A102 must equal the direct debit payment amount (PaymentAmount) in the financial transaction record.

Taxpayers may submit the Form 40A102 if a Form 4868 has been approved and they would like to request a direct debit payment of Kentucky tax prior to the filing of the Form 740 or Form 740-NP.

To revoke (cancel) a payment, the taxpayer must contact the Kentucky Department of Revenue at (502) 564-4581 no later than 2 business days prior to the payment (debit) date.

Taxpayers who request a federal extension are not required to file a separate Kentucky extension. Please mark the federal/state extension field (FederalExtension Indicator) in the Form 740/740-NP schema and the late filing penalty will not be assessed during processing if the taxpayer has filed Form 40A102 with the state or has filed a federal extension (Form 4868).

A supporting copy of the Form 40A102 or Form 4868 is not required to be attached to the Form 740 or Form 740-NP when filing through MeF. Please see the Kentucky tax year 2015 individual income tax schema for additional information on filing the extension electronically.

A copy of the Form 40A102 should be signed and retained by the taxpayer and/or tax preparer if the state extension is being filed electronically. It may be requested at a later date. The retention period of the Form 40A102 is 5 years, the same as the Individual Income Tax Return.

### **Check the Status of a Refund Online**

Taxpayers can now check the status of their Individual Income Tax refund by going to the Kentucky Department of Revenue website – <http://www.revenue.ky.gov/refund.htm>. To take advantage of this fast and secure service, taxpayers will need their social security number and the exact amount of their refund. The status will be posted 7-10 days after an electronic tax return is filed or 8-10 weeks after a paper tax return is filed.

## Section 7: Schemas & Transmission Specifications

- The Kentucky forms-based schema has been developed to match all tax forms and schedules included in our e-file program.
- Software developers should apply the data element restrictions documented in the schema to the corresponding data elements in their software.
- Annotations are provided for all line items to help in the development process, as well as to provide additional information when a submission is rejected.
- All XML data must be well formed.
- Packaging of data and transmission payload must be in the proper format.
- Returns filed in XML format with SOAP attachments allow for binary attachments to the submission. These attachments could consist of credit schedules, statement records, or other types of documentation. The allowed file type for an attachment is file extension .PDF. The file order of attachments and procedures must follow the IRS requirements for binary attachments as found in IRS publication 4164. The Kentucky Department of Revenue will allow for binary attachments of income and withholding tax statements supporting Kentucky tax withheld to the state individual income tax return.
- Each submission should contain a Kentucky state return and a copy of the federal return including wage and tax statements supporting Kentucky withholding claimed whether it is a linked or unlinked return.
- Each submission must be a separate file.
- Each state return must be submitted in the XML format specified and agreed upon by IRS, state agencies, transmitters, and software developers.
- Each linked state return should include a copy of the federal return as submitted to the IRS.
- If the IRS rejects a Fed/State submission, the state will not receive the state return portion. The Fed/State submission must be re-submitted.
- Each submission (state return, federal return, manifest and attachments) must be in Zip archive format. The zip file name should be in the following format: 99999999999999999999.zip, where the 9's represent the submission id. The state submission should be named 99999999999999999999.xml
- The manifest schema is controlled by E-Standards and the IRS.

- PDF attachment names may contain letters and numbers. The name should reference the Form/Schedule and line number when possible. The PDF should only have one file extension '.pdf' The LinkToAttachment element in the XML state return must match the actual file name of the pdf.
- No nesting of zip archive files or returns will be allowed. (i.e. one submission, one zip.)
- The SOAP message itself must not be compressed or zipped.
- The message must contain a header, a body, and an attachment. See Modernized E-File Logical ICD Model for message layout and message technical specifications.
- ERO's and transmitters must be approved with the IRS in order to transmit MeF returns.
- The Kentucky Department of Revenue will produce an acknowledgement of acceptance or rejection for each state submission. The transmitter may then retrieve Kentucky's acknowledgement from the IRS.
- The Kentucky Department of Revenue requests that vendors not submit form tags for any schedules, worksheets or forms that are not used in the return.
- The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 740 should be KYForm740.

The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 740-NP should be KYForm740NP.

The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 40A102 should be KYForm40A102.

The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for the KY Electronic Payment Voucher Form 42A740-EPAY should be KYFormEPAY.

The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 740-NP-R should be KYForm740NPR.

The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 725 should be KYForm725.

The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 740-X should be KYForm740X.

The Return Type (element `ReturnType`) and State Submission Type (element `StateSubmissionType`) for amended Form 740-NP should be `KYForm740NPX`.

**An incorrect `ReturnType` or `State Submission Type` will cause a schema validation failure and the submission will be rejected.**

## Section 8: Kentucky Form Edits

This Section contains field information rules that should be followed by all developers on the primary Kentucky return and supporting schedules when electronic return data is processed. This should be used as a guide to assist tax software developers.

### Form 740 & Form 740-NP

Political Party Fund – One of the three (3) taxpayer political party fund options must be selected for all filing statuses. If the filing status is Single or Married Filing Separate Returns, the spouse political party fund should be NULL. If the filing status married filing joint or married filing separate on a combined return is selected, both the taxpayer and spouse political party fund options must be selected.

If the Married Filing Separate Returns filing status is selected, and the spouse SSN is unavailable, the spouse name should be placed in the Form 740 schema FS4SpouseName or Form 740-NP schema FS3SpouseName element. However, if both spouse name and SSN are provided, place this information in the secondary filer portion of return header state.

Form 740-NP, page 4, Section D, line 1, column A should not include moving expense reimbursements.

Form 740, Line 5 and Form 740-NP, page 4, Section D, line 35, column A **must** match the federal adjusted gross income on Line 37 of Form 1040, Line 21 of Form 1040A, Line 4 of Form 1040EZ or Line 36 of Form 1040-NR. **(Exception: If Kentucky filing status is Married Filing Separate Returns and the federal filing status is Married Filing Joint).**

If a taxpayer's Kentucky modified gross income is negative, the Kentucky modified gross income is zero (\$0) for family size tax credit calculation.

If the family size tax credit amount is greater than zero, the total family size element must be populated.

Tax elements for the following line numbers cannot be less than zero. Form 740: Lines 12A, 12B, 14A, 14B, 16A, 16B, 18A, 18B, 19, 22, 24, 26, and 28 cannot be negative. Form 740-NP: Lines 14, 16, 18, 19, 22, 24, 26 and 28. If value equals negative amount, send zero in the schema element.

If Kentucky Schedule A (Form 740 or Form 740-NP), Schedule M, Schedule ME, Schedule P, Schedule J, Form 4972-K, Form 5695-K, Form 8863-K, Form 8582-K, Worksheet A, or Worksheet C are utilized or required and the software does not support these schedules or forms, the taxpayer will not be allowed to file electronically. Any return requiring and missing these schedules will be rejected.

Underpayment of Estimated Tax Penalty--Form 2210-K is required if Form 740 or Form 740-NP, line 40 exceeds \$500. If Form 2210-K is not supported by your software

package, Kentucky will automatically calculate the underpayment of estimated tax penalty and a notice of tax due will be mailed to the taxpayer.

**Late Filing Penalty**—For returns filed after April 18, 2016, a late filing penalty must be calculated. The penalty is 2 percent of the additional tax due field for each 30 days or fraction thereof that a return is not filed. The penalty does not exceed 20 percent and the minimum penalty is \$10.

**Late Payment Penalty**--For returns filed after April 18, 2016, if the amount timely paid is greater than 75 percent of the tax determined due, no late payment penalty is due. If the amount prepaid is less than 75 percent of the tax determined due, then a penalty of 2 percent of the additional tax due may be assessed for each 30 days or fraction thereof that the tax is past due. The penalty does not exceed 20 percent and the minimum penalty is \$10.

**Tax Interest Rate** – The 2017 tax interest rate charged by the Kentucky Department of Revenue on unpaid taxes shall be 5% and when interest is due on a refund the rate shall be 1%.

The child care credit is only allowable if federal Form 2441 is submitted. It should be included in the federal record with the federal data, even if it is not required for federal purposes. Line 9 of Form 2441 is the amount used to calculate the Kentucky credit for child-care expenses.

The format for percentage fields varies by form. It could be in the range of 2 to 4 positions past the decimal. Please review each schema to determine how to format these fields. Schedule A uses xxx.xx format, Schedule P uses xxx.xx, Form 4972K uses x.xxxx, 8863K uses x.xxx.

### **Schedule A (Form 740/Form 740-NP)**

If the Schedule A schema is present in the return, the KY AGI fields must be populated for medical/dental expense, casualty & theft exclusion and job expenses if those sections are utilized.

The percentage fields listed on page 2 of the Schedule A should be formatted as 5,2. (i.e. 100% equals 100.00, 50.5% = 50.50).

If a taxpayer uses itemized deductions, then the spouse must also itemize deductions. Returns filed with 2 Schedule A forms are accepted. The standard deduction is only available to non-itemizers. Married Filing Joint Returns are only entitled to one standard deduction.

If the Kentucky adjusted gross income is a negative value, it is treated as such on the Kentucky Schedule A for the adjusted gross income fields and should be entered as a negative value.



If the elements MedicalDentalExpExcl and JobExpExcl are negative, zero should be used instead of the negative value in the calculation of the elements TotalMedicalDentalDed and TotJobOtherExp.

Lines 33 through 36 of the Schedule A (Form 740-NP), must be completed if the filing status is 3-Married filing separate returns or if the spouse is not filing a Kentucky return.

For tax year 2015, the limitation on itemized deductions threshold is \$184,000 (\$92,000 if married filing separate returns). If your Kentucky adjusted gross income is above this threshold then your itemized deductions (excluding medical and dental, investment interest, losses for casualty or theft and gambling losses) will be limited. In general, if the limitation applies, itemized deductions are reduced by the lesser of: 3% of the adjusted gross income that exceeds the threshold or 80% of the allowable itemized deductions. A worksheet has been included with the Schedule A to help determine the amount of deductions you are allowed to take if you cross the threshold.

### **Form 8582K**

Form 8582K contains assumed negative elements on page 1. These elements should be sent as positive numbers since the form assumes a negative entry. The following line numbers pertain to this rule; Line 1b, Line 1c, Line 2a, Line 2b, Line 2c, Line 3b and Line 3c.

### **Financial Transaction Record**

The payment amount (element PaymentAmount) on all financial transactions must be a whole dollar amount.

**NOTE: If the return is adjusted and the amount of the refund or the tax due amount changes, the financial transaction data for refunds or payments will not be utilized. Any change in the refund amount will result in a paper check being issued instead of a direct deposit and any change in the tax due amount will result in a notice of total tax due.**

## Section 9: Electronic Filing Statistics from TY2015

**Approximately 86% of all individual income tax returns were filed electronically.  
The totals below are approximations since we are still processing TY2015 returns.**

### **Approximate Totals to date:**

Total Returns:	1,995,000
Total E-Filed Returns:	1,708,000

### **Form 740:** (Began August 15, 2011)

Type of E-filing Program	Fed/State + State Only
# of State Returns E-filed	1,575,000
MeF Refund Time Frame	7 - 12 days
Direct Deposit Time Frame	7 - 9 days

#### Options:

Direct Payment (ACH Debit)	YES
Direct Deposit	YES
Balance Due Returns	YES
State Debit Card	YES

### **Form 740-NP:** (Began July 5, 2013)

Type of E-filing Program	Fed/State + State Only
# of State Returns E-filed	133,000
MeF Refund Time Frame	7 - 12 days
Direct Deposit Time Frame	Not Available

#### Options:

Direct Payment (ACH Debit)	YES
Direct Deposit	NO
Balance Due Returns	YES
State Debit Card	YES

### **Form 40A102:** (Began January 20, 2015)

Type of E-filing Program	State Only
# of State Returns E-filed	7,800

#### Options:

Direct Payment (ACH Debit)	YES
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**Frequent Errors**

The following are common errors frequently found in past submissions.

- Incorrect Return Types (element Return Type) were used. KYForm740 should be used for Form 740 and KYForm740NP should be used for Form 740-NP.
- Incorrect format in the financial transaction payment amount (PaymentAmount) - A whole dollar amount is required.
- The Software Id (element SoftwareID) is omitted or not in uppercase.
- Blank forms or schedules are received.
- Missing forms or schedules.

## **Section 10: Electronic Filing Program Publications and Forms**

### **Publications**

The following publications describe the process of electronic filing and federal/state electronic filing:

#### **Internal Revenue Service Publications**

- Publication 1345, Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns
- Publication 1346, Electronic Return File Specifications for Individual Income Tax Returns
- Publication 4164, Modernized e-File Guide for Software Developers & Transmitters

#### **Kentucky Department of Revenue Publications**

- Publication KY-1345, Kentucky Handbook for Electronic Filers of Individual Income Tax Returns
- Publication 4164, Information for Fed/State Development of Modernized E-file for Individual Income Tax – Software Developer's Guide
- Forms and publications can also be found at <http://revenue.ky.gov/Software-Developer/Pages/Substitute-Forms-Design.aspx>
- 1D Barcode Layout: <http://revenue.ky.gov/Software-Developer/Software%20Development%20Documents/TY2016%201D%20Barcode%20%20Layout.pdf>

## Section 11: Important Dates for TY2016/PY2017

Kentucky's filing period for electronic returns will be identical to the IRS filing period. However, this is subject to change. Important dates and announcements can be found on our Software Developer's Information webpage: <http://revenue.ky.gov/Software-Developer/Pages/default.aspx>

For Taxable Period beginning January 1, 2016, and ending December 31, 2016

Begin ATS software testing for Kentucky Form 740	11/7/2016
Begin ATS software testing for Kentucky Form 740-NP	11/7/2016
Begin ATS software testing for Kentucky Form 740-NP-R	11/7/2016
Begin ATS software testing for Kentucky Form 725	TBD
Begin ATS software testing for Kentucky Form 720-SL (for 725)	TBD
Begin ATS software testing for Kentucky Form 40A102	11/7/2016
Begin ATS software testing for Kentucky Form EPAY	11/7/2016
Kentucky will participate in the Controlled Launch TBD	Yes- Date
Begin transmitting Production returns to IRS/KDOR	TBD
Last Day to transmit Production returns electronically	TBD
Last Day for all rejected returns to be re-transmitted and Accepted	TBD

**NOTE: These dates are subject to change at any time.**

## **Section 12: Electronic Filing Help Desk**

The e-file help desk is for use by the software development and tax preparation communities regarding Kentucky e-file technical specifications/issues, schemas, and testing.

The help desk operating hours are Monday through Friday, 7:00 a.m. through 3:30 p.m. (EST). The help desk will observe all state holidays.

E-file Help Desk Contact Information  
Help Desk Phone # 502-564-5370

Audrey J. Terry  
Department of Revenue  
Division of Operations  
E-Commerce Branch  
501 High Street, Station 22  
Frankfort, KY 40601-2103  
Phone: (502) 564-7862  
E-Mail: [AudreyJ.Terry@ky.gov](mailto:AudreyJ.Terry@ky.gov)

Note: Taxpayer's needing assistance on all tax matters should contact the Taxpayer Assistance Branch at 502-564-4581 for assistance.

Reference: Software Development and Substitute Forms Development Information website: <http://revenue.ky.gov/Software-Developer/Pages/default.aspx>